

Message Text

PAGE 01 NATO 03039 01 OF 02 311740Z

46

ACTION EUR-25

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INFO AMEMBASSY MOSCOW

C O N F I D E N T I A L SECTION 1 OF 2 USNATO 3039

E.O. 11652: GDS

TAGS: ECON, NATO

SUBJ: ECONADS: JUNE 6 MEETING ON RECENT DEVELOPMENTS IN COMECON

REF: (A) USNATO 2887; (B) A-95 OF MAY 15, 1974

1. THE ECONOMIC DIRECTORATE HAS SUGGESTED THE POINTS LISTED BELOW (PARA 3) AS VITAL ISSUES ON WHICH DISCUSSION MIGHT FOCUS DURING JUNE 6 MEETING ON COMECON. BASIC DOCUMENTS FOR MEETING ARE AC/127-D/483 AND AC/127-D/484 (REF B).

2. ACTION REQUESTED: (A) COMMENTS ON POINTS LISTED BELOW BY JUNE 5; (B) NAME, OFFICE, GOVERNMENT GRADE, AND SECURITY CLEARANCE OF US EXPERT ATTENDING MEETING.

BEGIN TEXT:

SIGNIFICANT FEATURES OF COMECON

I. COMECON--A POLITICAL INSTRUMENT?

IT IS GENERALLY AGREED THAT THAT USSR HAS ALWAYS BEEN THE DRIVING FORCE BEHIND COMECON, WHICH IN EFFECT, HAS SERVED CONFIDENTIAL

PAGE 02 NATO 03039 01 OF 02 311740Z

AS AN INSTRUMENT OF SOVIET POLICY. IN THESE CIRCUMSTANCES MERELY ECONOMIC EXPLANATIONS FOR CERTAIN DEVELOPMENTS IN COMECON MIGHT BE INADEQUATE, AND IT IS IN THE LIGHT OF THE GENERAL TREND OF SOVIET POLICY THAT COMECON SHOULD BE VIEWED. AN ATTEMPT TO

LOOK AT COMECON HISTORY FROM THIS ANGLE IS MADE BELOW.

II. POLITICAL ADVANTAGE AND ECONOMIC COST

IN SO FAR AS COMECON IS PRIMARILY AN INSTRUMENT OF SOVIET POLICY IT COULD WELL BE THAT THE SOVIETS ARE SOMETIMES PREPARED TO PAY A PRICE IN TERMS OF ECONOMIC DISADVANTAGE FOR A PARTICULAR POLITICAL ADVANTAGE. THIS MEANS THAT NOT ALL COMECON DEVELOPMENTS WILL BE TO THE IMMEDIATE ECONOMIC ADVANTAGE OF THE SOVIET UNION, THOUGH THE SOVIETS WILL OBVIOUSLY TRY TO MINIMISE THE DISADVANTAGES. AN EXAMPLE OF THIS COULD BE THE SALE OF OIL AND RAW MATERIALS TO EASTERN EUROPE. IN PURELY COMMERCIAL TERMS IT MIGHT WELL PAY THE SOVIETS TO SELL MORE OF THEIR OIL, ORES, TIMBER ETC. TO WESTERN COUNTRIES RATHER THAN TO THEIR COMECON PARTNERS, BUT THEY PREFER TO CONTINUE TO SUPPLY THE EAST EUROPEANS WITH THE BULK OF THE REQUIREMENTS OF THESE COMMODITIES, SO THAT THESE COUNTRIES SHOULD REMAIN CLOSELY LINKED BY TRADE TO THE USSR.

III. PHASES OF COMECON

(A) THE INITIAL PHASE, THAT IS, UNTIL THE MID-FIFTIES, REFLECTED STALIN'S GENERAL POLICY. PRIORITY PLANNING AND SELF-SUFFICIENCY WERE EVERYWHERE THE AIMS. THE STALLITES WERE EXPLOITED IN SOVIET INTEREST, THEIR RELATIONS TO THE OUTSIDE WORLD REDUCED TO A MINIMUM, THOSE WITH OTHER SOCIALIST COUNTRIES FOSTERED.

(B) AFTER STALIN'S DEATH THERE WAS A CHANGE IN POLICY, AND FROM 1956 COMECON ENTERED INTO AN ACTIVE PHASE WHICH LASTED UNTIL 1962. FOLLOWING THE BRUTAL SUPPRESSION OF THE HUNGARIAN RISING, THE SOVIETS BEGAN TO RELY HEAVILY ON IDEOLOGICAL ARGUMENT AND POLITICAL MANOEUVRE IN ORDER TO MEET WESTERN PRESSURE AND MAINTAIN THEIR ASCENDANCY IN THE SOCIALIST WORLD AGAINST THE RESISTANCE OF THE EAST EUROPEANS AND THE AMBITIONS OF THE CHINESE. THEY STRONGLY PROMOTED THE IDEA OF A SOCIALIST WORLD MARKET DISTINCT FROM IN RIVALRY WITH THE CAPITALIST SYSTEM. IN 1962
CONFIDENTIAL

PAGE 03 NATO 03039 01 OF 02 311740Z

KHRUSCHEV PUT FORWARD HIS SCHEME FOR COMMON SOCIALIST PLANNING WHICH SEEMED DESIGNED ON THE ONE HAND TO COUNTER THE GROWING INFLUENCE OF THE COMMON MARKET AND TO ISOLATE THE CHINESE ON THE OTHER. THIS MANOEUVRE WAS FRUSTRATED BY ROMANIAN RESISTANCE THOUGH IT IS POSSIBLE THAT THE FAILURE OF THE UK AT THAT JUNCTURE TO JOIN THE EEC MADE THE WHILE ISSUE SOMEWHAT LESS URGENT IN SOVIET EYES.

(C) THE PERIOD FROM THE BEGINNING OF 1963 UNTIL AUGUST 1968 WAS ONE OF CONSOLIDATION AND QUIET PROGRESS IN COMECON. THE SOVIETS AGREED TO ACCEPT THE BILATERAL APPROACH AND RELIED ON A GRADUAL BUILDUP OF SPECIALISATION ARRANGEMENTS. INTRA-COMECON TRADE, ARRANGED ON A FIVE-YEAR BASIS, CONTINUED TO EXPAND AND IN

THE GROWING ATMOSPHERE OF DETENTE FEW HINDRANCES WERE PLACED TO THE GRADUAL EXPANSION OF EAST-WEST TRADE. TOWARDS THE END OF THIS PERIOD IT SEEMED THAT THE URGE FOR ECONOMIC REFORM IN EASTERN EUROPE MIGHT, WHILE FOSTERING SPECIALISATION AMONG THE EAST EUROPEANS, ON THE OTHER HAND LOOSEN THE SOVIET HOLD ON THESE COUNTRIES AND STRENGTHEN THEIR RELATIONS WITH THE OUTSIDE WORLD.

(D) WITH THE SOVIET OCCUPATION OF CZECHOSLOVAKIA A NEW PHASE IN SOVIET POLICY AND IN COMECON AFFAIRS BEGAN. THE CONCEPT OF LIMITED SOVERIGNTY, THE RESORT TO MILITARY POWER, THE PROMPT LIQUIDATION OF CZECHOSLOVAK ATTEMPTS AT ECONOMIC REFORM WERE ALL ASPECTS OF THE SOVIET DETERMINATION TO CONSOLIDATE ITS HOLD OVER TERRITORIES GAINED IN 1945 AND TO NEGOTIATE WITH THE WEST ONLY ON THIS BASIS. IN THESE CIRCUMSTANCES IT WAS LOGICAL THAT THE SOVIETS WOULD USE THE COMECON MACHINERY TO THESE ENDS. AMONG THE INSTANCES OF THIS NEW THRUSTING POLICY OF THE SOVIETS THE FOLLOWING MAY BE CITED:

- (I) THE COMPREHENSIVE PROGRAMME WHICH WAS WORKED OUT OVER 1969-71 IN ORDER TO ACHIEVE "INTEGRATION" AS THE SOVIETS UNDERSTAND THIS WORD;
- (II) THE DEFERMENT OF THE PUBLICATION OF THE EAST EUROPEAN FIVE-YEAR-PLAN (1971-75) UNTIL THE TRADE REQUIREMENTS OF THE SOVIET UNION HAD BEEN FULLY TAKEN INTO ACCOUNT;
- (III) THE SOVIET INITIATIVE--VERY RELUCTANTLY SUPPORTED BY MOST EAST EUROPEANS--TO FORGE DIRECT RELATIONS BETWEEN THE EEC AND COMECON.

CONFIDENTIAL

PAGE 04 NATO 03039 01 OF 02 311740Z

CONFIDENTIAL

PAGE 01 NATO 03039 02 OF 02 311831Z

46

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C O N F I D E N T I A L SECTION 2 OF 2 USNATO 3039

IV. THE COMPREHENSIVE PROGRAMME

THERE APPEARS TO BE SOME MISUNDERSTANDING IN THE WEST ABOUT THIS PROGRAMME. DISCUSSIONS IN CONNECTION WITH IT RANGED OVER ALL ASPECTS OF ECONOMIC DEVELOPMENT, RELATIONS BETWEEN NATIONAL ECONOMIES AND THE POSSIBILITIES OF INTEGRATION. IT WILL BE REMEMBERED THAT THERE WERE TWO RATHER DIFFERENT APPROACHES TO THE MATTER. THE SOVIETS AND CERTAIN OTHERS MAINTAINED THAT COMMON OR CO-ORDINATED PLANNING WAS THE NATURAL SOCIALIST WAY OF PROMOTING INTEGRATION. ON THE OTHER HAND THE POLES, THE HUNGARIANS AND TO SOME EXTENT THE CZECHOSLOVAKS SUGGESTED THAT SPECIALISATION AND INTEGRATION WOULD FOLLOW MORE NATURALLY IF RATIONAL PRICE SYSTEMS WERE INTRODUCED AND CURRENCIES MADE CONVERTIBLE. THERE IS OF COURSE A FUNDAMENTAL DIFFERENCE IN THESE APPROACHES. THE IMPLEMENTATION OF THE PLANNING POLICY WOULD TURN EAST EUROPE INTO AN EXTENSION OF THE SOVIET ECONOMY WHEREAS THE POLICY ADVOCATED BY THE SMALLER COUNTRIES WOULD TEND TO EFFACE THE BASIC DIFFERENCES BETWEEN EASTERN AND WESTERN ECONOMIES AND OPEN THE DOOR TO TRADE BETWEEN THEM BASED ON COMMERCIAL CONSIDERATIONS. THE FACT THAT ALL THESE IDEAS WERE INCORPORATED INTO THE COMPREHENSIVE PROGRAMME DID NOT AT ALL MEAN THAT THEY RETAIN THE SAME IMPORTANCE. THERE HAS BEEN CONSIDERABLE DEVELOPMENT TOWARDS COMMON PLANNING BUT PRACTICALLY

PAGE 02 NATO 03039 02 OF 02 311831Z

NONE AT ALL IN THE DIRECTION OF A RATIONAL PRICE SYSTEM AND CURRENCY CONVERTIBILITY. THE ISSUE WAS VERY CLEARLY STATED BY THE ASSISTANT SECRETARY OF COMECON IN EKONOMICHESKAYA GAZETA NO. 45 OF 1971. TODOROV STATED THAT, CONTRARY TO SOME WESTERN PRESS REPORTS IT WAS A MISTAKE TO BELIEVE THAT THAT PART OF THE PROGRAMME WHICH DEALT WITH MONEY RELATIONSHIPS AND CURRENCY CONVERTIBILITY HAD PRIME IMPORTANCE. IN FACT, THE PROGRAMME GAVE MOST IMPORTANCE TO PLANNING AND IT IS IN THIS CONTEXT THAT MONEY RELATIONSHIPS WOULD BE DEVELOPED. DIRECT LINKS BETWEEN THE PRODUCING UNITS THROUGHOUT THE COMECON AREA HAD TO BE BUILT UP AND A SOLID LEGAL BASE FORGED. HE ADDED THAT THE PREOCCUPATION WITH MONEY RELATIONSHIPS WAS CHARACTERISTIC OF THOSE WHO BELIEVED IN THE GRADUAL TRANSFORMATION OF THE PLANNING SYSTEM INTO A MARKET ECONOMY WITH CORRESPONDING CHANGES IN THE POLITICAL SYSTEM OF SOCIALISM.

THE FAILURE TO MAKE PROGRESS IN THE SPHERE OF ECONOMIC REFORM AND CURRENCY CONVERTIBILITY SHOULD NOT BE REGARDED, AT ANY RATE FROM THE SOVIET ANGLE, AS A FAILURE TO IMPLEMENT THE PROGRAMME. THE ABSENCE OF A RATIONAL PRICE STRUCTURE IS THE NATURAL RESULT OF A SYSTEM IN WHICH PLANNERS ATTACH OVERRIDING PRIORITY TO CERTAIN AIMS AND WISH TO DESIGUISH AS FAR AS POSSIBLE THE COST TO THE COMMUNITY. THE FACT THAT IN THE COMMAND ECONOMY THE POSSESSION OF MONEY BALANCE HOWEVER LEGITIMATELY ACQUIRED, DOES NOT NECESSARILY GIVE ACCESS TO GOODS (ESPECIALLY CAPITAL GOODS) IS NOT AN EXAMPLE OF THE INEFFICIENT WORKING OF THE SYSTEM BUT SIMPLY THE CONSEQUENCE OF THE DETERMINATION OF THE PLANNERS TO

CONTROL THE FLOW OF MATERIAL GOODS. IT WOULD BE PERFECTLY POSSIBLE FOR MOST OF THE COMECON COUNTRIES TO MAKE THEIR CURRENCIES CONVERTIBLE, PARTICULARLY AS THEY ARE IN A POSITION TO CONTROL VERY EFFECTIVELY THEIR PAYMENTS BALANCE. THE PLANNING AND POLITICAL BUREAUCRACY IS HOWEVER JUST NOT PREPARED TO ACCEPT A PRICE SYSTEM WHICH WOULD REVEAL THE COST OF PLANNING DECISIONS OR A MONETARY SYSTEM WHICH WOULD GIVE OWNERS OF BALANCES, AT HOME OR ABROAD, SOME INFLUENCE ON ECONOMIC DECISIONS IN THE COUNTRY.

V. THE LEVEL OF EAST-WEST TRADE

HITHERTO THE COMECON STATES HAVE TENDED TO MAINTAIN A HIGH LEVEL OF TRADE AMONG THEMSELVES AND PARTICULARLY WITH THE CONFIDENTIAL

PAGE 03 NATO 03039 02 OF 02 311831Z

SOVIET UNION, WHICH MEANT NOT ONLY THE INTRACOMECON LINKS WERE FORGED BUT THAT THE SCOPE OF TRADE WITH THE OUTSIDE WORLD REMAINED LIMITED. IT CAN BE SAFELY ASSUMED THAT WERE IT NOT FOR POLITICAL PRESSURE THE PROPORTION OF TRADE WITH THE WEST WOULD HAVE BEEN HIGHER AND THAT WITHIN COMECON LOWER. RECENTLY EAST-EST TRADE HAS BEEN EXPANDING, NOT ONLY ABSOLUTELY BUT RELATIVELY AS A SHARE OF THE TOTAL. ALTHOUGH SOME OF THE INCREASE IS DUE TO THE INFLATION OF WESTERN PRICES, THERE IS NO DOUBT THAT THERE HAS BEEN SOME RISE IN THE VOLUME OF EAST-WEST TRADE AND ITS SHARE OF THE TOTAL TRADE OF THE COMECON COUNTRIES. THE QUESTION IS WHETHER THIS IMPLIES ANY BASIC TRADE IN COMECON POLICY. IT WAS FROM THE SOVIET UNION THAT PRESSURE CAME TO KEEP EAST-EST TRADE WITHIN MODEST LIMITS. SINCE CURRENTLY THE USSR IS ITSELF INTERESTED IN INCREASING TRADE RELATIONS WITH THE WESTERN WORLD IT IS ALMOST INEVITABLE THAT SOME RELAXATION MUST BE PERMITTED TO OTHER COMECON MEMBERS. IT IS IMPORTANT TO BEAR IN MIND, TOO, THAT THE INCREASED VOLUME OF EAST-WEST TRADE IS COUNTERBALANCED BY THE GROWING INSTITUTIONAL CONTROL OF COMECON OVER ALL TRADING RELATIONS. HENCE ALTHOUGH THIS INCREASE IN EAST-EST TRADE MAY WELL BRING COMMERCIAL BENEFIT TO THE WEST IT DOES NOT MEAN ANY INCREASE IN THE ABILITY OF THE EAST EUROPEAN COUNTRIES TO CONTROL THEIR OWN DESTINIES.

VI. NEW COMECON BODIES

COMECON IS ALWAYS SPAWNING NEW INSTITUTIONS. SOME OF THESE MAY EXIST MAINLY TO PROVIDE INFORMATION AND GENERALLY TO FACILITATE RELATIONS BETWEEN MINISTRIES, ORGANIZATIONS AND ENTERPRISES OF THE VARIOUS COUNTRIES, WHILE OTHERS PERHAPS MAY BE REGARDED AS INSTRUMENTS THROUGH WHICH PRESSURE CAN BE BROUGHT TO BEAR ON COMECON GOVERNMENTS BY MOSCOW. A PARTICULARLY SIGNIFICANT DEVELOPMENT IN THIS CONTEXT APPEARS TO BE THE "INTERNATIONAL PLANNING AGENCY" WHICH IS TO BE SET UP NEXT YEAR UNDER THE DIRECTION OF BAYBAKOV. IT LOOKS VERY MUCH LIKE THE EXTENSION OF THE COMPETENCE OF GOSPLAN TO THE WHOLE OF COMECON.

END TEXT. RUMSFELD

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